AFC Energy PLC

Developer of alkaline fuel cells

Report and Accounts
for the year ended 31 October 2007

AFC Energy plc

AFC Energy develops low-cost alkaline fuel cells for industries that produce hydrogen as a by-product. This hydrogen is used by AFC Energy's fuel cells to produce clean electricity.

AFC Energy's fuel cells have been developed with a focus on three key criteria:

- reduced precious metal content;
- operable at low temperatures to allow the use of plastic mouldings;
- high efficiency levels with an approximate conversion rate of 60%.

Having achieved these three objectives, AFC Energy has significantly reduced the cost of its technologies and thereby ensured the continuing commercialisation of its fuel cells.

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ABOUT AFC ENERGY PLC

Target markets

- AFC Energy targets industrial companies that produce hydrogen as a by-product from their operations. The chlorine industry produces large amounts of hydrogen each year, a substantial quantity of which is often vented off and lost into the atmosphere.

Commercialisation

- AFC Energy targets end-users directly. It is not reliant on intermediaries.
  Akzo Nobel, one of Europe's largest chlorine producers, is AFC Energy's first customer, with shipments due to begin in August 2008.

- Energy produced by AFC Energy's fuel cells can be used on-site or sold to the national grid.
  AFC Energy's 50kW fuel cells have a two-year payback period.

Low-cost technology

- AFC Energy has reduced the amount of precious metals required in the manufacture of its electrodes.

- The fuel cells have been engineered with a minimal number of components to reduce cost of production and maintenance. Key parts of the fuel cells are housed in cartridges which can be removed, repaired and recycled.

Fuel cell prototypes

- A prototype of the fuel cell to be sold to Akzo Nobel has been developed and tested.
  During fuel cell trials, performances have met, and often exceeded, expectations.
- Development schedules for the fuel cells have been completed on time.
  Surrey University works alongside AFC Energy to independently verify the progress of the technology.

Multiple cartridges assembled together form AFC Energy's 3.5kW system. Initially five 3.5kW systems have been ordered, with delivery scheduled to start in August 2008 to Akzo Nobel's site in Bitterfeld, Germany.

CHAIRMAN'S STATEMENT

It is a pleasure to report our first full year results, to 31 October 2007, which were in line with our forecasts at the time of admission to AIM.

Introduction

In a year of highly satisfactory progress, the Company secured its first contract with Akzo Nobel. During the year, Akzo Nobel made on-account payments to AFC Energy to cover part of the development costs of our technology.

AFC Energy will begin shipping its fuel cells to Akzo Nobel during August 2008.

The Company has a strong technical team to complete the development of its fuel cells and begin the first shipments.

Group strategy

The Company is focused on developing fuel cells for industrial companies that produce hydrogen as a by-product from their activities. This hydrogen is currently vented off and released into the atmosphere.

By taking our fuel cells to this energy source and capturing the hydrogen, we will be able to provide these companies with a method of generating electricity in an environmentally friendly manner.

Customers will then be able to sell this electricity or reduce their own energy costs by using the electricity themselves. Payback for AFC Energy's fuel cells therefore is approximately two years.

In order to ensure timely execution of AFC Energy's budgeted development plans, the Company intends to raise additional funds in the coming months. To this end shareholders are being asked to authorise the directors to issue and allot shares for cash. Your attention is drawn to Resolutions 11 and 12 being proposed at the Company's AGM on 10 April 2008.

Market opportunity

With mounting pressure to expand renewable energy sources there are an increasing number of companies developing different types of fuel cells for different markets and different applications.

AFC Energy targets industries that produce waste hydrogen. The directors estimate that the chlor-alkali industry alone has approximately 3,000 MW per annum of generating capacity.

Companies in this sector often use electrolysis as part of their own operation, a reverse of the process that AFC Energy uses in its own fuel cells. Consequently the adoption and management of our systems by a customer is relatively easy and familiar to them.

In addition, installing our fuel cells into large single sites within a controlled environment provides greater efficiencies than, for example, installing fuel cells into individual residential locations. This is more costly and vulnerable to misuse.

Employees

We are grateful to every employee, all of whom have worked extremely hard during our first full year as a listed company. The work ethic at AFC Energy has been a major factor in our ability to achieve all our milestones within this targeted timeframe.

We have also strengthened the board during the year and welcomed Otto Carlisle as Technical Director. In addition, it is intended that Mitchell Field be proposed at the AGM for appointment to the board.

Otto has responsibility for the development of our fuel cells and ensuring that AFC Energy meets all aspects of its agreement with Akzo Nobel, and Mitchell has substantial business experience from which we hope to benefit.

Tim Yeo

Chairman

17 March 2008

OPERATING AND FINANCIAL REVIEW

Introduction

AFC Energy is involved in the cost engineering of an existing technology, not the development of a new one. This is an important point of differentiation for the Company. Our focus is to produce alkaline fuel cells at a commercial price point.

Consequently, it has been essential for us to hire the right calibre people who understand the connection between product development and cost engineering. The successful IPO and listing of the Company has allowed us to expand our team and accelerate our product development, enabling us to complete our cell configuration and testing work in our own labs. Tests run in parallel by Surrey University have confirmed our results and show that we can manufacture our cells and all their components at the cost we projected, using technology that is currently available. This is a major step forward in the commercialisation of fuel cells.

TECHNOLOGY DEVELOPMENT

AFC's technological objectives

During the year, the majority of our work has been concentrated on the electrode development and the final system design with repeatability and reliability of product our main priorities.

We have set the performance criterion for the electrode at a modest 100mA/cm2. Our aim, central to our business plan, is to achieve this target output at the set production price, based on a production rate of 1,000kW per annum.

The AFC Energy team has a strong background in production engineering, which has been the key to developing the Company's strong manufacturing control processes. We have a very tightly defined programme plan and have been able to stick with this throughout our current workload and projections, meeting all the milestones set out in the Admission Document.

Summary of development programme:

Milestone	Description	Target Completed
1	Small scale single cell 500 hours operation	May 2007 - ACHIEVED
2	First scaled single cell operation	August 2007 - ACHIEVED
3	Scaled single cell 500 hours operation	October 2007 - ACHIEVED
4	First prototype system operation	January 2008 - ACHIEVED
5	System operation 500 hours	February 2008 - ACHIEVED
6	Delivery of multiple systems to customer	August 2008

Catalyst

AFC Energy's core technology is the production of a non-precious metal catalyst at a price point that makes commercial sense. We have achieved notable success with the development of this technology and have also established a reliably reproducible cathode and anode substrate to complement it.

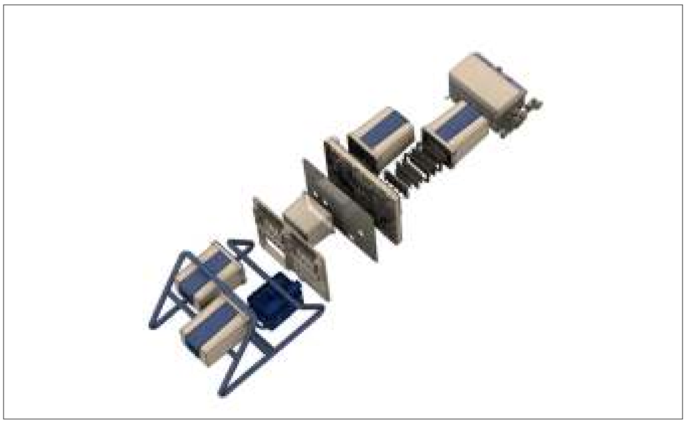
Work on the catalyst is still ongoing as we finalise processes and combinations and at the same time test it for longevity and mechanical strength. We will also carry out further research to explore the possible application of our technology in the chlorate industry. This work will attract funding under the EU FP7 programme, which AFC Energy will investigate in the next few months.

Electrode

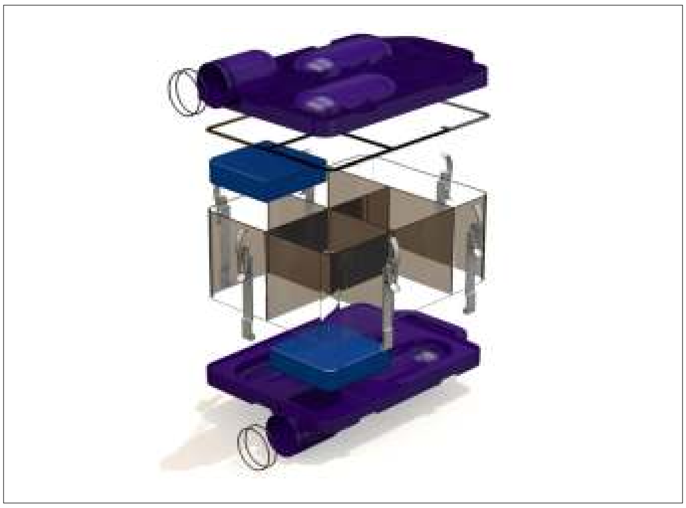
An integral part of the development of the electrode is to balance the desired output against the cost of manufacture, the catalyst loading, the binder volume and the electrode conductor material. This process is now well on the way with clearly defined pathways to apply, test and confirm a series of performance steps. Tests already undertaken have produced, in many cases, better than projected results.

Work is still ongoing and we are well on course to complete this within the timeframe set for these tasks to be finalised.

Through its cartridges AFC Energy has developed a 'plug and power' system that is easy to maintain, ensures the fuel cells are commercial and makes mass production a more simple operation.



To ensure their viability, AFC Energy has reduced the fuel cells system's costs by eliminating the need for the life of electrodes to exceed 8,000 hours. Electrodes are easily replaceable and recyclable by housing them in a series of exchangeable cartridges.



Reduced complexity of fuel cell system

Reducing the complexity of the fuel cell system is an essential requirement and primary objective in the development of a reliable and cost-effective product. Our design departments have sought to minimise the number of components to be assembled, to reduce the electrical and mechanical losses in the peripheral systems, to develop the components for automated assembly and to ensure by design that components that are being serviced cannot be assembled incorrectly. This demonstrates AFC Energy's recognition of the importance of product design to company profitability.

Testing and validation

Surrey University works alongside AFC Energy to help the Company achieve its targets, and provides independent validation reports on half-cell testing progress and electrode analysis. This has contributed greatly to the successful completion of our programme so far, and the Company expects to continue its relationship with Surrey University.

In addition the appointment of Gasketel as our after sales service partner in Germany strengthens our development plans and further underlines our commitment to Akzo Nobel. AFC Energy is considering extending its single cell test programme to Gasketel in Germany for third party validation.

FINANCIAL HIGHLIGHTS

The Company was successfully admitted to AIM in April 2007 raising £3.0 million before expenses.

The Company incurred direct and administrative costs of approximately £2 million in the year, as it consolidated its team of technical experts tasked with the development and testing of the company's products and their commercialisation.

Monthly payments have been received from Akzo Nobel, our first customer. We have delivered on time the various development programme milestones outlined in the Admission Document.

As our relationship with Akzo Nobel develops and further opportunities with our client are identified, AFC Energy will commit further capital and resource to the project, as detailed in the Admission Document.

The Company's net assets at 31 October 2007 were £2.948 million and the cash balance was £2.128 million.

Akzo Nobel

First prototype

The first commercial application of our system and its technology will be at Akzo Nobel's chlor-alkali plant in Bitterfeld, Germany.

We will install a unit comprising five 3.5kW systems and integrate this unit with the factory's own control and safety systems. This arrangement will allow for the in-house and remote monitoring of system up-time, efficiency of conversion, temperatures, reliability, and interface aspects.

We have agreed safety controls to comply with Akzo Nobel's in-house requirements will shortly receive full HAZOP certification of our system.

AFC Energy's first fuel cells will fully integrate with Akzo Nobel's own complex control systems. Connecting directly to the hydrogen created as a by-product, AFC Energy will generate clean energy for Akzo Nobel. This 15kW prototype provides valuable operating data which will be used to assist the successful integration of the fuel cells into the client's central control room inside the Bitterfeld factory.

50kW system

In line with its agreement with Akzo Nobel, AFC Energy has started the Product Design Specification of the 50kW system, which will be based around the current electrode and cartridge frame design.

Modelling of the 50kW system is underway in preparation for the final system design.

COMMERCIAL OUTLOOK

Chlorate industry

We have also identified a very large opportunity within the chlorate industry as well as the chlorine industry. This sector is at least as large as the chlor-alkali industry and currently does not use any of the hydrogen produced in its processes. There are more contaminants in their hydrogen which will provide an additional technical challenge for the AFC team.

Our product, with its unique electrode design and cost structure, is ideally suited to providing a novel solution to this industry, allowing them to recover a large cost element rather than almost completely losing the value of the hydrogen produced.

Power and water applications

During the year we explored other interesting avenues for our product, combining power generation with the production of potable water. We have commissioned Element Energy to carry out a study on our behalf that will further define this space.

We received an order for three thousand 3.5kW systems from the Indonesian government but the internal political situation is such that it may be a while before this order is formally ratified. Until the order is confirmed, with the receipt of an initial payment, AFC Energy will not be allocating any resources to this opportunity.

Revenue-sharing model

We are currently working on the last phase of our future business model, where we provide our customers in the chlorine industry with a complete leasing solution. AFC Energy will install and maintain its equipment on site, in exchange for a long-term contract to share the revenue generated by the conversion of excess hydrogen to electric power. This model is highly attractive as it allows AFC to benefit from any rise in electricity prices in the future, and at the same time provides us with a regular income.

Chlor-alkali industry

We continue to discuss opportunities with a number of major players in the chlor-alkali industry, mostly larger by size and volume of hydrogen produced than Akzo Nobel, with a view to building on our existing customer base.

We are in active discussions and look forward to updating shareholders about these opportunities in due course.

Gerard Sauer

Chief Executive Officer

17 March 2008

BOARD OF DIRECTORS

Tim Yeo - Non-executive Chairman (Aged 63)

Tim Yeo has been Member of Parliament for South Suffolk since 1983. Prior to 1997 he served as a Minister in the Conservative Government, latterly as Minister of State for the Environment. From 1998 to 2005 he was a member of the Shadow Cabinet, and since 2005 has been Chairman of the Conservative Party's Environmental Audit Committee.

He is Chairman of Univent plc, a nursing home operator, and a director of ITI Energy, which supplies gasifiers, Chairman of Eco City Vehicles plc, an AIM-quoted supplier of London taxis, and a non-executive director of Groupe Eurotunnel SA, the Paris-listed operator of the Channel Tunnel.

Gerard Sauer - Ing-MVT – Chief Executive Officer (Aged 62)

Educated and trained in Holland and Germany, Gerard established a prototype engineering business in the UK in 1971, working exclusively in the motor sport arena. During the latter part of the 1980s an increasing amount of design and development work involved integrating advanced drive systems and fuel cell based integration work. Gerard worked increasingly on development and design work in the fields of SOFC, PEM and alkaline fuel cell system integration involving cars, vans, buses, boats and static generators.

From 2001 onwards, Gerard instigated and led Eneco's "Own Electrode Project" to establish the creation of a low-cost electrode and fuel cell system.

Simon Walters - ACA - Finance Director (Aged 44)

Simon qualified as a chartered accountant in 1986 and joined the corporate finance department of Stoy Hayward. In 1990 he left to join Fuller Peiser, a national property consultancy, as Finance Partner where he stayed for two years before becoming Finance Director of the privately-held Molyneux property group, whose interests included 52% of quoted PLC Molyneux Estates. In 1997, he became FD of the operating companies of Shani, a fully-listed UK clothing manufacturer.

In 1999, Simon became Finance Director of Wood Hall Securities, a private equity group with funds invested in a range of private high-growth businesses and a significant property portfolio. Simon has also been a non-executive director of Bilston & Battersea Enamels plc, and a director of many companies. Simon is currently managing director of FD Solutions and provides finance director services to listed and unlisted companies in various sectors.

Otto Carlisle - Technical Director (Aged 34)

In 2000, Otto joined Eneco to work on its alkaline fuel cell system having completed a degree in Mechanical Engineering with Automotive Design at Brunel University. He soon became Design Manager and responsible for the fuel cell design, development and testing program. He is a member of the IMechE, a Chartered Engineer, and completed a Masters in Renewable Energy Systems Technology at the University of Loughborough in 2005.

Otto has been with AFC Energy since its inception in 2006, has been fundamental in the set up of the Company and has been responsible for all aspects of the technical development program.

Brian Wilson - Non-executive Director (Aged 59)

Rt Hon. Brian Wilson is a Privy Councillor and former UK Energy Minister who was a Member of Parliament from 1987 to 2005. In all, he held five Ministerial posts and latterly acted as the Prime Minister's Special Representative on Overseas Trade. Since leaving politics, he has maintained a strong interest in the energy sector on which he writes and broadcasts extensively, as well as holding several non-executive positions. Married with three children, Brian lives in Glasgow where he is a director of Celtic Football Club.

Dr Michael Mangan - Non-executive Director (Aged 66)

Michael has a PhD in plasma behaviour in very high current electrical discharges from the University of Liverpool. He has extensive experience of electricity application projects for electric road vehicles gained from work at the Electricity Council, Lucas and more latterly Chloride Silent Power (CSPL), which he joined in 1986 as team leader for the US DOE-sponsored sodium sulphur battery development programme.

Michael joined the fuel cell company Zevco (later ZeTek Power plc) in 1998 as General Manager, based in Belgium, and transferred to the Fuel Cell Systems subsidiary of ZeTek Power plc in 2000 as technology director, responsible for the development of operational fuel cell systems and third-party training programmes. Following the closure of ZeTek Power plc in 2001, he continued with similar work for Eneco.

Harry Epstein - Non-executive Director (Aged 48)

Harry is the US-based VP Innovation for Havi Global Solutions, the provider of packaging, promotions and supply chain management globally to some of the world's leading brand owners in the food service industry. Harry has been responsible for leading major brands into a sustainable solution, not only for packaging but sustainable architecture and energy, and has advised and developed proposals for creating as comprehensive a carbon neutral footprint in all areas as is feasible. Harry sits on various committees associated with environmentally responsible solutions. Harry has over 18 years of senior management experience, most of it spent in the telecommunications and computer industries.

DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the year ended 31 October 2007. The comparative period was from incorporation on 9 January 2006 to 31 October 2006.

Principal activities and review of business developments

The principal activity of AFC Energy plc (or "the Company") was the development of fuel cells. The Company's shares were admitted to listing on the Alternative Investment Market ("AIM") of the London Stock Exchange on 23 April 2007.

Reviews of operations, business developments and current projects are included in the Chairman's Statement and the Operating and Financial Review.

Results and dividend

The results for the year are set out in the income statement on page 15. No dividends were paid in the year. The directors do not intend to declare a dividend in respect of the year.

Directors and their interests

The directors who served during the year were:

Tim Yeo MP	Chairman (appointed 14 December 2006)
Gerard Sauer	Chief Executive Officer
Simon Walters	Finance Director (appointed 7 February 2007)
Otto Carlisle	Technical Director (appointed 23 July 2007)
Brian Wilson	Non-Executive (appointed 16 February 2007)
Dr Michael Mangan	Non-executive (appointed 19 February 2007)
Harry Epstein	Non-executive (appointed 22 February 2007)
Howard White	Non-executive (resigned 13 July 2007)

On 31 October 2007 the directors' interests in the equity share capital of the Company were:

	Number of Ordinary shares of 0.1p 2007	Number of Ordinary shares of 1p 2006	Number of options and warrants over Ordinary shares of 0.1p 2007	Number of options and warrants over Ordinary shares of 1p 2006
Tim Yeo MP	-	-	1,117,490	-
Gerard Sauer	1,600,000	160,000	2,934,670	293,467
Simon Walters	-	-	-	-
Otto Carlisle	1,600,000	-	560,000	-
Brian Wilson	-	-	350,000	-
Dr Michael Mangan	-	-	350,000	-
Harry Epstein	7,000,000	-	-	-

In accordance with the Company's Articles of Association, at least one third of the directors must retire by rotation at each Annual General Meeting, and they may stand for re-appointment at the Meeting. Additionally, a director appointed during the year must stand for re-appointment at the first Annual General Meeting after such appointment. Accordingly the directors retiring by rotation are Gerard Sauer and Michael Mangan. Both, being eligible, offer themselves for reappointment.

A resolution is being proposed at the Annual General Meeting for the appointment of Mitchell Field to the board of the Company.

Directors' remuneration

Name	Salary	Share-based payment expense	Other compensation	Total 2007	Total 2006
	£	£	£	£	£
Tim Yeo MP	15,583	42,931	-	58,514	-
Gerard Sauer	88,398	35,985	-	124,383	54,422
Simon Walters (see note 23)	-	-	26,794	26,794	-
Otto Carlisle	21,250	5,254	-	26,504	-
Brian Wilson	10,389	23,312	-	33,701	-
Dr Michael Mangan	10,389	23,312	-	33,701	-
Harry Epstein	10,389	-	-	10,389	-
Howard White	22,414	16,374	-	38,788	2,591

Directors' service contracts

- Tim Yeo MP was appointed as Chairman and non-executive director under the terms of a non-executive letter dated 20 February 2007 for an indefinite term, subject to a minimum of six months' notice.
- Gerard Sauer has a service contract with the Company which commenced on 19 February 2007 for an indefinite term, subject to six months' notice by either party.
- Simon Walters entered into a consultancy agreement with the Company on 19 February 2007, subject to two months' notice by either party (see also note 23).
- Otto Carlisle has a service contract with the Company which commenced on 23 July 2007 for an indefinite term, subject to six months' notice by either party.
- Brian Wilson's services as a non-executive Director are provided under the terms of a non-executive letter of appointment dated 14 December 2006 for an indefinite term, subject to a minimum of six months' notice.
- Dr Michael Mangan's services as a non-executive Director are provided under the terms of a non-executive letter of appointment dated 14 December 2006 for an indefinite term, subject to a minimum of six months' notice.
- Harry Epstein's services as a non-executive Director are provided under the terms of a non-executive letter of appointment dated 14 February 2007 for an indefinite term, subject to a minimum of six months' notice.

Share capital

Details of the Company's share capital are disclosed in note 16 of the financial statements.

On 31 October 2007, the Company was aware of the following holdings of three per cent or more in the Company's issued share capital:

	Number of shares	Approximate percentage of the Company's issued share capital
Age of Reason Foundation	22,602,420	25.78%
Eturab Trade Corporation	8,000,000	9.12%
Harry Epstein	7,000,000	7.98%
Credit Suisse	4,261,827	4.86%
Adam White	3,500,000	3.99%
Sinjul Nominees	2,700,000	3.08%

Charitable donations

Charitable donations in the year amounted to £3,000.

Corporate Governance

The directors seek, as far as is considered appropriate having regard to the size and nature of activities of the Company, to comply with the Combined Code on Corporate Governance applicable to listed companies. The board is assisted in this regard by a number of committees with delegated authority.

Audit Committee

The Company's audit committee comprises Tim Yeo MP and Brian Wilson. The committee meets at least twice a year and at any other time when it is appropriate to discuss audit, accounting or control issues. The committee will meet the external auditors, without the executive board members being present, to review accounting and internal control matters. The committee's principal objectives are to review annual and interim financial statements; to review accounting policies; to review with management and the Company's external auditors the effectiveness of internal controls; to oversee the publication of reserve and resource statements to ensure compliance with best practice under the new AIM rules; and to review with the Company's external auditors the scope and results of their audit. Tim Yeo MP chairs the audit committee.

Remuneration Committee

The remuneration committee's members are Tim Yeo MP, Brian Wilson and Michael Mangan who review the performance of the executive directors and set the scale and structure of their remuneration and the basis of their service agreements. In determining remuneration, the committee seeks to enable the Company to attract and retain executives of the highest calibre. The committee also makes recommendations to the board concerning allocation of share options to employees. No directors participate in discussions or decisions concerning their own remuneration. This committee is also responsible for nominating candidates, for the approval of the board, to fill either executive or non-executive vacancies or additional appointments to the board.

Details of the Directors' remuneration, service agreements and their interests in the share capital of the Company are disclosed in the Directors' Report.

AIM Rules Compliance Committee

The AIM rules compliance committee comprises Tim Yeo MP, Brian Wilson and Michael Mangan and meets at least twice a year and at any other time when it is appropriate. The committee monitors internal procedures, resources and controls to enable the company to comply with AIM rules.

Payments to creditors

The Company's policy is to settle the terms of payment with its suppliers when agreeing the terms of each transaction, either by accepting the suppliers' terms or by making the suppliers aware of alternative terms, and to abide by the agreed terms. Trade creditors of the Company at 31 October 2007 represented 56 days of annual purchases.

Liability insurance for company officers

The Company has in place a Directors’ and Officers’ insurance policy.

Research and development

The Company invests substantially in research and development, and makes claims under the government’s R&D tax credit scheme. In the periods to 31 October 2006 and 2007, expenditure totalled £259,050 and £647,057 respectively.

Going concern

Based on a review of the Company's budgets and cash flow plans, the directors are satisfied that the Company has sufficient resources to continue its operations and to meet its commitments for the foreseeable future.

Relations with shareholders

The board attaches great importance to maintaining good relationships with shareholders. The board regards the Annual General Meeting as an opportunity to communicate directly with investors, who are encouraged to attend and participate.

Auditors

A resolution to re-appoint the auditors of the Company, Jeffreys Henry LLP, will be proposed at the forthcoming Annual General Meeting. Jeffreys Henry LLP have expressed their willingness to continue as auditors of the Company.

This report was approved and authorised for issue by the board of directors on 17 March 2008.

ROGER POWLEY

Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of financial statements which comply with the requirements of the Companies Act 1985. The Directors are also responsible for ensuring that all relevant audit information of which they are aware is presented to the auditors.

The Directors have prepared the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

So far as the Directors are aware,

- there is no relevant information of which the Company's auditors are unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Financial statements are published on the Company's website. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the financial statements contained therein.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AFC ENERGY PLC

We have audited the Company financial statements (the ''financial statements'') of AFC Energy plc for the year ended 31 October 2007 which comprise the Company Income Statement, the Company Balance Sheet, the Company Cash Flow Statement, the Company Statement of Changes in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is consistent with the financial statements, and if, in our opinion, the company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Highlights, Chairman's Statement, Operating and Financial Review and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 October 2007 and of its loss for the year then ended;
- the Company financial statements have been properly prepared in accordance with the Companies Act 1985;
- the Directors' Report is consistent with the Company financial statements.

Jeffreys Henry LLP

Chartered Accountants & Registered Auditors
Finsgate, 5-7 Cranwood Street, London, EC1V 9EE

17 March 2008

INCOME STATEMENT

	Note	Year ended 31 October 2007 £	Period from 9 January to 31 October 2006 £
Revenue		-	-
Direct expenses		(116,228)	-
Gross loss		(116,228)	-
Administrative expenses		(1,840,802)	(617,158)
analysed as:			
Administrative expenses		(1,562,298)	(605,612)
Equity-settled share-based payments	17	(278,504)	(11,546)
Operating loss	5	(1,957,030)	(617,158)
Financial income	8	90,158	14,013
Financial expense	9	-	(27)
Net financial income		90,158	13,986
Loss before tax		(1,866,872)	(603,172)
Taxation	10	155,294	60,679
Loss for the year attributable to equity holders		(1,711,578)	(542,493)
Basic loss per share	11	(2.1)p	(1.2)p
Diluted loss per share	11	(2.1)p	(1.2)p

All amounts relate to continuing operations.

BALANCE SHEET

	Note	31 October 2007 £	31 October 2006 £
Assets			
Non-current assets			
Intangible assets	12	298,874	287,051
Property and equipment	13	472,601	152,184
		771,475	439,235
Current assets			
Trade and other receivables	14	461,567	114,735
Cash and cash equivalents	15	2,128,350	396,244
		2,589,917	510,979
Total assets		3,361,392	950,214
Equity and liabilities			
Equity attributable to ordinary shareholders			
Share capital	16	87,683	70,000
Share premium		4,825,189	1,334,935
Other reserve		290,050	11,546
Retained loss		(2,254,071)	(542,493)
Total equity		2,948,851	873,988
Current liabilities			
Trade and other payables	18	412,541	76,226
		412,541	76,226
Total equity and liabilities		3,361,392	950,214

These financial statements were approved and authorised for issue by the Board on 17 March 2008.

GERARD SAUER
Chief Executive Officer

SIMON WALTERS
Finance Director

CASH FLOW STATEMENT

	Note	Year ended 31 October 2007	Period from 9 January to 31 October 2006
		£	£
Cash flows from operating activities			
Loss before tax for the period		(1,866,872)	(603,172)
Adjustments for:			
Depreciation and amortisation		145,275	44,154
Equity-settled share-based payment expenses	17	278,504	11,546
Interest paid		-	27
Interest received		(90,158)	(14,013)
Cash flows from operating activities before changes in working capital and provisions		(1,533,251)	(561,458)
Increase in trade and other receivables		(191,538)	(54,056)
Increase in trade and other payables		336,315	76,226
Cash absorbed by operating activities		(1,388,474)	(539,288)
Cash flows from investing activities			
Investment in plant and equipment	13	(452,592)	(184,207)
Acquisition of patents	12	(24,923)	(299,182)
Net cash absorbed by investing activities		(477,515)	(483,389)
Cash flows from financing activities			
Net proceeds from the issue of share capital		3,507,937	1,404,935
Interest paid		-	(27)
Interest received		90,158	14,013
Net cash from financing activities		3,598,095	1,418,921
Net increase in cash and cash equivalents		1,732,106	396,244
Cash and cash equivalents at start of period		396,244	-
Cash and cash equivalents at 31 October	15	2,128,350	396,244

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 2007

	Share Capital	Share Premium	Other Reserve	Retained Loss	Total Equity
	£	£	£	£	£
Balance at 9 January 2006	-	-	-	-	-
Loss after tax for the period	-	-	-	(542,493)	(542,493)
Total recognised income and expense for the period	-	-	-	(542,493)	(542,493)
Issue of equity shares	7,000	1,397,935	-	-	1,404,935
Capitalisation issue	63,000	(63,000)	-	-	-
Equity-settled share-based payments	-	-	11,546	-	11,546
Balance at 31 October 2006	70,000	1,334,935	11,546	(542,493)	873,988
Balance at 1 November 2006	70,000	1,334,935	11,546	(542,493)	873,988
Loss after tax for the year	-	-	-	(1,711,578)	(1,711,578)
Total recognised income and expense for the year				(1,711,578)	(1,711,578)
Shares issued in the year	17,683	4,015,731	-	-	4,033,414
Share issue expenses	-	(525,477)	-	-	(525,477)
Equity-settled share-based payments	-	-	278,504	-	278,504
Balance at 31 October 2007	87,683	4,825,189	290,050	(2,254,071)	2,948,851

Share capital is the amount subscribed for shares at nominal value.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of these shares net of share issue expenses.

Other reserve represents the credit to equity in respect of equity-settled share-based payments.

Retained loss represents the cumulative loss of the Company attributable to equity shareholders.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

1. Corporate information

AFC Energy plc ("the Company") is a public limited company incorporated in England & Wales and quoted on the Alternative Investment Market of the London stock exchange.

The address of its registered office is Finsgate, 5-7 Cranwood Street, London EC1V 9EE.

2. Basis of preparation and accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as adopted by the European Union and also in accordance with the Companies Act 2006.

The accounting policies set out below have, unless otherwise stated, been applied consistently in these financial statements.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

a. Amendments to published standards and interpretations to existing standards effective in 2007 adopted by the Company

- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets ('the asset'); and (b) the arrangement conveys a right to use the asset. Management assessed the impact of IFRIC 4 on the Company's operations by reviewing all the existing arrangements. There was no impact of the adoption of IFRIC 4 on the results or net assets of the Company.

- IFRIC 11, IFRS2 Company and Treasury Share Transactions (effective for periods beginning on or after 1 March 2007). The amendment requires that all share-based payment transactions in which an entity receives services as consideration for equity instruments shall be accounted for as equity-settled. This applies regardless as to whether the equity instruments have to be acquired from a third party ("treasury shares"). The Company has adopted this amendment. The policy is consistent with past practice of the Company and the amendment has no impact on the results or net assets of the Company.

b. Standards, interpretations and amendments to published standards effective in 2006 and 2007 but are not relevant to the Company

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 July 2006 but are currently not relevant to the Company's operations:

- IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses arising from defined benefit pension schemes. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. This amendment is not relevant to the Company's operations, as the Company did not have any defined benefit pension schemes as at 31 October 2007 or 31 October 2006.

c. Standards, amendments and interpretations to published standards which have not been endorsed by the EU and are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 31 October 2006 or later periods but the Company has decided not to adopt early. These are:

The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company has assessed the impact of IFRS7 and the amendment to IAS 1 and concluded that the main additional disclosures would be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Company will apply FRS 7 and the amendment to IAS 1 to the accounts for the year beginning on 1 November 2007. This amendment will not result any impact on the results or net assets of the Company.

- IFRS 8, Operating Segments (effective from 1 January 2009). This standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It replaces IAS 14, Segmental Reporting. The Company will apply this standard in the accounting period beginning on 1 January 2009 and the application will not result in any impact on the results or net assets of the Company.

- IFRIC 12, Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008). IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Company's operations due to the absence of such arrangements.

d. Revenue

Revenue is recognised on delivery of the products, primarily fuel cells, or services provided by the Company.

e. Foreign currency

In accordance with IAS21, transactions entered into by the Company in a currency other than the currency of the primary economic environment in which it operates (the functional currency) are recorded at the rates ruling when the transactions occur.

f. Trade and other receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision by the Company of goods and services to customers (trade debtors). They also include other types of contractual monetary assets. These assets initially recognised at fair value and are subsequently measured at amortised cost less any provision for impairment.

g. Property and equipment

Property and equipment are stated at cost less any subsequent accumulated depreciation and impairment losses. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Depreciation is charged to the income statement within cost of sales and administrative expenses on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

• Leasehold improvements	Life of the lease
• Fixtures, fittings and equipment	1 to 3 years

Expenses incurred in respect of the maintenance and repair of property and equipment are charged against income when incurred. Refurbishment and improvement expenditure, where the benefit is expected to be long lasting, is capitalised as part of the appropriate asset.

h. Intangible assets

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses.

Amortisation of intangible assets is charged to administrative expenses over the following periods:

• Patents	20 years

i. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with major banking institutions realisable within 90 days.

j. Other financial liabilities

Trade payables and other short-term monetary items are recognised at amortised cost.

k. Share-based payment transactions

The Company awards share options and warrants to certain Directors and employees to acquire shares of the Company. The fair value of options and warrants granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the Directors and employees become unconditionally entitled to the options or warrants. The fair value of the options and warrants granted is measured using a binomial option valuation model, taking into account the terms and conditions upon which the options and warrants were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options and warrants that vest only where vesting is dependent upon the satisfaction of service and non-market vesting conditions or where the vesting periods themselves are amended by the introduction of new schemes and the absorption of earlier schemes by agreement between the Company and the relevant Directors and employees. Where options or warrants granted are cancelled, all future charges arising in respect of the grant are charged to the income statement on the date of cancellation.

l. Financing costs

Financing costs comprise interest payable on bank loans and finance leases. Interest payable is recognised in profit or loss as it accrues, using the effective interest method.

m. Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or recoverable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date together with any adjustment to tax payable in respect of previous years.

Deferred tax assets are not recognised due to the uncertainty of the period over which they will be recovered

3 Accounting estimates and judgments

Carrying values of property, equipment and patents

The Company monitors internal and external indicators of impairment relating to its property, equipment and property. Management has considered whether any indicators of impairment have arisen over certain assets relating to these assets. After assessing these, management has concluded that no impairment has arisen in respect of these assets during the year and subsequent to 31 October 2007.

Useful lives of intangible assets, and property and equipment

Intangible assets, and property and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness.

Income taxes and withholding taxes

The Company believes that its receivables for tax recoverable are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

Share-based payments

In order to calculate the charge for share-based payments as required by IFRS2, the Company makes estimates principally relating to assumptions used in its option-pricing model as set out in note 17.

4 Segmental analysis

A segment is a distinguishable component of the Company that is engaged in providing products or services in a particular business sector (business segment) or in providing products or services in a particular economic environment (geographic segment), which is subject to risks and rewards that are different in those other segments. The Company operated in the year in one segment, the development of fuel cells, and in one principal geographic area, the United Kingdom.

5 Operating loss (2006: loss)

	Year ended 31 October 2007	Period ended 31 October 2006
	£	£
This has been stated after charging:		
Depreciation of property and equipment	132,175	32,023
Amortisation of intangible assets	13,100	12,131
Equity-settled share-based payment expense	278,504	11,546
Auditors' remuneration - audit	20,000	20,000
Auditors' remuneration - other services	52,286	-

6 Staff numbers and costs

	Year ended 31 October 2007	Period ended 31 October 2006
The average number of employees in the period were:	Number	Number
Support, operations and technical	11	6
Administration	5	3
	16	9
The aggregate payroll costs for these persons were:	£	£
Wages and salaries (including Directors' emoluments)	555,609	207,189
Social security	58,710	23,080
Share-based payment expense	278,504	11,546
	892,823	241,815

7 Directors' remuneration

	Year ended 31 October 2007	Period ended 31 October 2006
	£	£
Wages and salaries (including bonus)	178,812	51,831
Social security	13,209	6,258
Equity-settled share-based payment expense	147,168	-
Other compensation (see note 23)	26,794	5,182
	365,983	63,271
The emoluments of the Chairman were:	58,414	-
The emoluments of the highest-paid Director were:	124,383	51,831

The remuneration, details of share options and interests in the Company's shares of each Director is shown in the Directors' Report on page 9 to 12.

8 Financial income

	Year ended 31 October 2007	Period ended 31 October 2006
	£	£
Bank interest receivable	90,158	14,013
	90,158	14,013

9 Financial expense

	Year ended 31 October 2007	Period ended 31 October 2006
	£	£
Bank interest payable	-	27
	-	27

10 Taxation

	Year ended 31 October 2007	Period ended 31 October 2006
Recognised in the income statement	£	£
Research and development tax credit	155,294	60,679
Total tax credit	155,294	60,679
Reconciliation of effective tax rates		
Loss before tax	(1,866,872)	(603,172)
Tax using the domestic rate of corporation tax of 30%	(560,062)	(180,952)
Effect of:		
Expenses not deductible for tax purposes	89,561	8,667
Research and development allowance	(97,058)	(37,924)
Research and development tax credit	155,294	53,095
Depreciation in excess of capital allowances	(24,536)	(6,248)
Losses surrendered for research and development	291,176	-
Unutilised losses carried forward	300,919	102,683
Total tax credit for the period	155,294	60,679

11 Loss per share

The calculation of the basic loss per share is based upon the net loss after tax attributable to ordinary shareholders of £1,711,578 (2006: loss of £542,493) and a weighted average number of shares in issue for the year of 80,067,752 (2006: 45,144,125).

	Year ended 31 October 2007	Period ended 31 October 2006
Basic loss per share	(2.1)p	(1.2)p
Loss attributable to equity shareholders	£1,711,578	£542,493
	Number	Number
Weighted average number of shares in issue	80,067,752	45,144,125

Diluted earnings per share

The diluted loss per share is the same as the basic loss per share, as the loss for the year has an anti-dilutive effect.

12 Intangible assets

	2007	2006
	Patents	Patents
Cost	£	£
Balance at 1 November 2006	299,182	-
Additions	24,923	299,182
Balance at 31 October 2007	324,105	299,182
Amortisation		
Balance at 1 November 2006	12,131	-
Charge for the year	13,100	12,131
Balance at 31 October 2007	25,231	12,131
Net book value	298,874	287,051

13 Property and equipment

	Leasehold improvements	Fixtures, fittings and equipment	Total
	£	£	£
Cost			
At 9 January 2006	-	-	-
Additions	62,208	121,999	184,207
At 31 October 2006	62,208	121,999	184,207
At 1 November 2006	62,208	121,999	184,207
Additions	64,384	388,208	452,592
At 31 October 2007	126,592	510,207	636,799
Depreciation			
At 9 January 2006	-	-	-
Charge for the period	9,090	22,933	32,023
At 31 October 2006	9,090	22,933	32,023
At 1 November 2006	9,090	22,933	32,023
Charge for the year	41,085	91,090	132,175
At 31 October 2007	50,175	114,023	164,198
Net book value			
At 31 October 2007	76,417	396,184	472,601
At 31 October 2006	53,118	99,066	152,184

There are no assets held under finance leases. No assets have been revalued.

14 Trade and other receivables

	2007	2006
	£	£
Trade receivables	20,289	-
Other receivables	267,185	114,735
Prepayments	174,093	-
	461,567	114,735

15 Cash and cash equivalents

	2007	2006
	£	£
Cash at bank	86,226	396,244
Bank deposits	2,042,124	-
	2,128,350	396,244

Cash at bank and bank deposits consist of cash. There is no material foreign exchange movement in respect of cash and cash equivalents.

16a Authorised share capital

	Number	Number	£	£
	2007	2006	2007	2006
Ordinary Shares of 0.1p	700,000,000	70,000,000	700,000	700,000

On 23 March 2007, the authorised share capital of the Company was changed from 70,000,000 ordinary shares of 1p each to 700,000,000 ordinary shares of 0.1p each.

16b Issued share capital

	Number	£
At 9 January 2006	-	-
Issue of shares	7,000,000	70,000
At 31 October 2006	7,000,000	70,000
At 1 November 2006	7,000,000	70,000
Issue of shares on 13 February 2007 [1]	449,982	4,500
Issued shares at 23 March 2007	7,449,982	74,500
Converted to ordinary shares of 0.1p on 23 March 2007	74,499,820	74,500
Issue of shares on 24 April 2007 [2]	13,183,034	13,183
At 31 October 2007	87,682,854	87,683

1 449,982 ordinary shares with a par value of 1p per share were issued at £2.23p per ordinary share by way of a sale to private investors. Proceeds from the issue amounted to £1,003,460.

2 13,183,034 ordinary shares with a par value of 0.1p per share were issued at 23p per ordinary share in connection with the Company's admission to the Alternative Investment Market ("AIM"). Proceeds from the issue amounted to £3,029,954, together with associated costs of issue amounting to £525,477.

17a Share options

	Number of options	Exercise price (p)
At 9 January 2006	-	-
Options granted in period	490,000	100
Options lapsed in period	(70,000)	100
At 31 October 2006	420,000	100
At 1 November 2006	420,000	100
Amendment to share options following share sub-division on 23 March 2007	4,200,000	10
Options granted in the year	3,179,660	22-23
At 31 October 2007	7,379,660	

17b Warrants

	Number of warrants	Exercise price (p)
At 1 November 2006	-	-
Warrants granted in the year	4,039,980	10-22
At 31 October 2007	4,039,980	

17c Equity-settled share-based payments charge

Share options

Option price (p)	Average grant date share price (p)	Average expected volatility (pa)	Average risk-free interest rate (pa)	Average dividend yield (pa)	Average implied option life (years)	Average fair value per option (p)	Amount expensed in the 2007 accounts £
10	9	46%	4.4%	0.0%	3.5	2.5	39,402
22	20	46%	4.4%	0.0%	3.5	6	39,225
23	21	46%	4.4%	0.0%	3.5	6	2,008

Adjustment for changes in assumptions in respect of vesting conditions	-
Total charge for the year (2006: £11,546)	80,635

Warrants

warrant price (p)	Average grant date share price (p)	Average expected volatility (pa)	Average risk-free interest rate (pa)	Average dividend yield (pa)	Average implied warrant life (years)	Average fair value per warrant (p)	Amount expensed in the 2007 accounts £
10	20	46%	4.4%	0.0%	3.5	10	100,563
22	20	46%	4.4%	0.0%	3.5	6	97,306

Adjustment for changes in assumptions in respect of vesting conditions	-
Total charge for the year (2006: £nil)	197,869
Total equity-settled share-based payment charge (2006: £11,546)	278,504

Details of share options and warrants awarded to Directors are set out in the Directors' Report (page 9).

The weighted average fair value of the options over 490,000 ordinary shares granted in the period to 31 October 2006, as estimated at the date of the grant, was £122,500. The fair value of options granted to employees during the period to 31 October 2006 was measured on the basis of the exercise price of the Company's shares at the date of the grant.

18 Trade and other payables

	2007 £	2006 £
Trade payables	207,615	40,976
Deferred income	111,219	-
Other payables	27,613	12,333
Accruals	66,094	22,917
	412,541	76,226

19 Total operating lease commitments

Non-cancellable operating leases are as follows:	2007 £	2006 £
Between one and two years	49,134	68,531
Between two and five years	-	34,265
	49,134	102,796

20 Risk and sensitivity analysis

The Company is exposed through its operations to one or more of the following financial risks:

Liquidity risk

The liquidity risk of the Company is managed centrally. New borrowings are taken on where additional funds are required. Surplus funds not allocated to future investment and working capital requirements would be hard used to repay loans and borrowings or would be held on deposit. The Company intends to maintain a balance of funding designed to reduce liquidity risks whilst also seeking to minimise the costs of borrowing. Where appropriate the Board will seek additional funds from the issue of share capital and warrants.

Market operational risks

The value of the company is dependent on successful commercialisation of its alkaline fuel cell technology. There is no guarantee these objectives will be achieved. This could be due to unforeseeable issues with the technical programme, or problems arising from scaling up the manufacture process. In addition, new technology, changing commercial circumstances and new entrants to the market in which the company operates may adversely affect the company's value.

21 Capital commitments

The Company had no capital commitments outstanding at 31 October 2007.

22 Post-balance sheet events

There are no events after the balance sheet date which require disclosure in the financial statements.

23 Related-party transactions

During the year ended 31 October 2007, £26,794 (plus VAT) was invoiced by FD Solutions, the trading name of DFM Limited (a company registered in England & Wales) for services including Simon Walters acting as a director of AFC Energy plc (2006: nil). Mr Walters is also a director and shareholder of DFM Limited. At 31 October 2007, the sum owing to DFM Limited was £7,356 (2006: nil).

In January 2007 the company paid £11,274 to Gerard Sauer (2006: nil), being a percentage of the investment raised through his efforts during a pre-flotation fundraising.

During the year ended 31 October 2007, £7,340 was paid to Ben Sauer, son of Gerard Sauer, for website design and maintenance services (2006: nil). The sums paid were billed at arms-length commercial rates. At 31 October 2007, the sum owing to Mr Sauer was £60 (2006: nil).

DIRECTORS, COMPANY SECRETARY AND ADVISERS

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Tim Yeo MP
Gerard Sauer
Simon Walters
Otto Carlisle
Brian Wilson
Dr Michael Mangan
Harry Epstein

Secretary
Roger Powley

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AFC ENERGY plc
NOTICE OF ANNUAL GENERAL MEETING
Registered in England and Wales No. 05668788

Notice is hereby given to all members that the ANNUAL GENERAL MEETING of the above-named Company will be held at Jeffreys Henry, Finsgate, 5-7 Cranwood Street, London, EC1V 9EE on 10 April 2008 at 3 p.m. for the following reasons:

ORDINARY BUSINESS

To consider and if thought fit, adopt the following resolutions as ordinary resolutions:

1. To receive and approve the Financial Statements for the period ended 31 October 2007 with the reports of the Directors and Auditors thereon.
2. To re-appoint Jeffreys Henry LLP as auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which Financial Statements are laid before the Company at a remuneration to be determined by the Directors.
3. To re-elect G Sauer as a Director.
4. To re-elect M Mangan as a Director.
5. To re-elect O Carlisle as a Director.
6. To re-elect H Epstein as a Director.
7. To re-elect S Walters as a Director.
8. To re-elect B Wilson as a Director.
9. To re-elect T Yeo MP as a Director.
10. To elect M Field as a Director.

SPECIAL BUSINESS

To consider and if thought fit, adopt the following resolution as an ordinary resolution:

11. That, subject to and in accordance with Article 16 of the Company's Articles of Association, in substitution for all existing authorities, to the extent unused, the Directors shall have general and unconditional authority for the purposes of section 80 of the Companies Act 1985 (as amended) (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) of the Company up to a maximum nominal amount of £40,000 provided that such authority shall expire on 9 July 2009 unless previously renewed, varied or revoked by the Company in General Meeting and the Directors shall be entitled under the authority hereby conferred or under any renewal thereof to make at any time prior to the expiry of such authority any offer or agreement, which would or might require securities as a foresaid to be allotted after the expiry of such authority.

To consider and if thought fit, adopt the following resolution as a special resolution:

12. That subject to and conditional upon the passing of resolution 11 and in accordance with Article 17 of the Company's Articles of Association, the Directors shall be and are hereby empowered pursuant to section 95 of the Companies Act 1985 (the "Act") to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority given in accordance with section 80 of the Act by Resolution 5 and/or allot equity securities where such allotment constitutes an allotment of securities by virtue of section 94(3A) of the Act as if section 89(1) of the Act did not apply thereto provided that this authority shall be limited to allotments of equity securities and the sale of treasury shares:

(i) in connection with or pursuant to an offer by way of rights, open offer or other pre-emptive offer to the holders of shares in the Company and other persons entitled to participate therein in proportion (as nearly as practicable) to their respective holdings, subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territory or the regulations or requirements of any regulatory authority or any stock exchange in any territory;

(ii) otherwise than pursuant to sub-paragraph (i) above, up to an aggregate nominal amount of £40,000, and such power shall expire on the conclusion of the Annual General Meeting of the Company to be held in 2009 or on 9 July 2009, whichever is earlier, but so that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry, and the Directors may allot equity securities or sell treasury shares in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

By Order of the Board

ROGER POWLEY

17 March 2008

AFC ENERGY plc
NOTICE OF ANNUAL GENERAL MEETING
Registered in England and Wales No. 05668788

Notes:

1. Any member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies (who need not be a member of the Company) to attend and to vote instead of the member.
2. Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he so wish.
3. A form of proxy is enclosed and to be valid must be completed and returned so as to reach the Company's registrars, Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol BS99 7NH (together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power or written authority) not later than 48 hours (excluding any part of a day which is a non-working day) before the time fixed for holding the meeting or any adjournment thereof.
4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those members registered in the Register of Members of the Company as at close of business on 8 April 2008 being not more than 48 hours before the time fixed for the meeting, are entitled to attend or vote at this meeting in respect of the number of shares registered in their name at close of business on 8 April 2008. Changes to entries in the Register after close of business on 8 April 2008 shall be disregarded in determining the right to attend or vote at the meeting.
5. Copies of the service contracts and letters of appointment of each of the Directors will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) and at the place of the Annual General Meeting from at least 15 minutes prior to and until the conclusion of the Annual General Meeting.
6. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions, and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives - www.icsa.org.uk - for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above. A letter in this form would be acceptable to the Company and its Registrars.

AFC ENERGY plc
NOTICE OF ANNUAL GENERAL MEETING
Registered in England and Wales No. 05668788

Explanation of Special Business

The Companies Act 1985 provides that Directors shall only allot unissued shares with the authority of shareholders in general meeting.

Resolution 11 will be proposed as an ordinary resolution for the renewal of the Directors' general authority to issue relevant securities up to an aggregate nominal amount of £40,000 of the current issued share capital of the Company (excluding treasury shares). The Directors have no present intention of exercising this authority. The Company held no shares in treasury as at 12 March 2008 being the last practicable date prior to publication of this document.

The Companies Act 1985 also provides that any allotment of new shares for cash must be made pro rata to individual shareholders' holdings, unless such provisions are disapplied under section 95 of the Companies Act 1985. The authority given to the Directors at the Extraordinary General Meeting held on 23 March 2007 to allot shares for cash pursuant to section 95 of the Companies Act 1985 expired on 28 February 2008.

Resolution 12 will be proposed as a special resolution for the renewal of the Directors' authority to allot equity securities for cash, without first offering them to shareholders pro rata to their holdings. This authority facilitates issues made by way of rights to shareholders which are not strictly in accordance with section 89 of the Companies Act and authorises other allotments of up to a maximum aggregate nominal amount of £40,000 of shares, representing approximately 46 per cent of the current issued ordinary share capital of the Company. This authority also allows the Directors, within the same aggregate limit, to sell for cash shares that may be held by the Company in treasury. The Directors have no present intention of exercising this authority.

The authorities granted under resolutions 11 and 12 will expire at the earlier of the next Annual General Meeting or on 9 July 2009.

AFC ENERGY plc - FORM OF PROXY
Registered in England and Wales No. 05668788

For use at the Annual General Meeting to be held on 10 April 2008

(PLEASE PRINT YOUR NAME AND ADDRESS IN FULL IN BLOCK CAPITALS)

I/We ____

Of ____

____

Hereby appoint the Chairman of the meeting * ______________________________

*If you wish to appoint someone other than the Chairman as your proxy, please delete these words and insert the desired name

to act as my/our proxy to vote on my/our behalf upon any matter proposed at the Annual General Meeting of the Company to be held on 10 April 2008 and at any adjournment thereof, in such manner as my/our proxy shall think proper, and if expedient to demand a poll. I/We request such proxy to vote on the following resolutions as indicated below:

☐ Please tick here if this proxy appointment is one of multiple proxies being made (and refer to note 5 below)

ANNUAL GENERAL MEETING		Against	For	Vote Withheld
Resolution 1	To receive and approve the Financial Statements			
Resolution 2	To re-appoint the auditors			
Resolution 3	To re-elect G Sauer as a Director			
Resolution 4	To re-elect M Mangan as a Director			
Resolution 5	To re-elect O Carlisle as a Director			
Resolution 6	To re-elect H Epstein as a Director			
Resolution 7	To re-elect S Walters as a Director			
Resolution 8	To re-elect B Wilson as a Director			
Resolution 9	To re-elect T Yeo MP as a Director			
Resolution 10	To elect M Field as a Director			
Resolution 11	To authorise the directors to allot relevant securities pursuant to section 80 of the Companies Act 1985 (as amended)			
Resolution 12	To approve the allotment of equity securities as if section 89(1) of the Companies Act 1985 (as amended) did not apply to such allotment			

Signature ______________________ Date ____________ Number of shares (see notes) ☐

NOTES:

1. To be valid, this form must be signed and received at the offices of the Registrars of the Company not less than 48 hours (excluding any part of the day which is a non-working day) before the time appointed for holding the meeting. In the case of joint holders any one holder may sign. If both joint holders sign conflicting proxies, the wishes of the holder first named on the register will be accepted.
2. A proxy need not be a member of the Company.
3. If the form of proxy is signed on behalf of a shareholder, the copy of the relevant authority of the signatory to act should also be forwarded to the Registrars. In the case of a corporation, the form must be under seal or under hand of a duly authorised officer.
4. Completion and return of this form of proxy does not prevent a shareholder from attending the meeting and voting in person in which case any votes cast by the proxy will be excluded.
5. If any other proxy is preferred, delete the words "the Chairman of the Meeting", insert the full name of the proxy or proxies you wish to appoint and initial the alteration. If you are appointing more than one proxy you must indicate the number of shares in respect of which you are making this appointment, you should include the number in the box provided for your first named proxy and either obtain (an) additional proxy form(s) from the Registrars (0870 707 1302) or you may photocopy this form. Please return all the forms together and tick the box to indicate each form is one of multiple instructions being given. Please take care when completing the number of shares; if the total number of shares exceeds the total held by the member, all appointments may be invalid.
6. The "vote withheld" option is provided to enable you to abstain on any particular resolution. However, it should be noted that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution.
7. Any alterations made in this form of proxy should be initialled.

Third Fold

BUSINESS REPLY SERVICE
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